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C O N F I D E N T I A L NATO 3477

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TAGS: ECON, NATO

SUBJECT: ECONADS: MEETING AT NATO JUNE 13, 1974, ON ECONOMY
OF PEOPLES REPUBLIC OF CHINA: SITUATION AND PROSPECTS

REFS: A) STATE 125076

B) AC/127-D/480

C) AC/127-D/481

D) AC/127-D/482

E) AC/127-D/485

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SUMMARY: COMMITTEE HELD LIVELY DISCUSSION AT NATO JUNE
13, 1974, REINFORCED BY FRENCH, NETHERLANDS AND UK EXPERTS
FROM CAPITALS. US REP DREW ON REFTEL. PRINCIPAL CON-
CLUSION DRAWN BY MEETING ATTENDEES WAS THAT PRC PETROLEUM
EXPORT POTENTIAL IS KEY TO SUSTAINED NATIONAL ECONOMIC GROWTH,
IF CHINESE CAN OVERCOME AVERSION TO NECESSARY ROLE OF
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FOREIGNERS IN DEVELOPMENT THIS RESOURCE. ECONOMIC DIRECTOR WILL

PREPARE NEW CONSOLIDATED DRAFT PAPER IN ONE MONTH, TAKING INTO ACCOUNT EARLIER UK AND FRG WRITTEN CONTRIBUTIONS (REF DOCS). AS AMPLIFIED BY FURTHER DATA OFFERED AND VIEWS EXPRESSED AT JUNE 13 MEETING (MAIN POINTS SET FORTH BELOW). CHAIRMAN REQUESTED ADDITIONAL SPECIFIC US CONTRIBUTIONS ON QUESTIONS WHICH AROSE DURING DISCUSSION (SEE PARA 5) GUIDANCE REQUESTED. END SUMMARY.

1. ECONOMIC COMMITTEE HELD MEETING AT NATO JUNE 13 TO UPDATE ASSESSMENT OF PRC ECONOMIC SITUATION AND PROSPECTS LAST EXAMINED AT NATO THREE YEARS AGO. DISCUSSION ENHANCED BY ATTENDANCE OF FRENCH (MAURER, SECRETARIAT GENERAL DE LA DEFENSE NATIONALE) N NETHERLANDS (HAAKENS, MFA) AND UK (FAWKES, MOD, AND NARCH, FCO) EXPERTS FROM CAPITALS. CHAIRMAN AND OTHER DELS EXPRESSED KEEN REGRET AT ABSENCE US AND FRG EXPERTS AND HOPED THESE COULD BE PRESENT FOR NEXT STAGE OF ECONADS CONSIDERATION OF SUBJECT.

2. COMMITTEE MEMBERS GENERALLY AGREED THAT PRC FACING ECONOMIC STALEMATE, ESPECIALLY IN VIEW POPULATION PRESSURES. PRC ECONOMIC GROWTH ESTIMATED (BY UK) CURRENTLY AT ABOUT 7-7 AND ONE HALF PERCENT. HOWEVER, PRESENT PRC EXPORT LEVEL IS SUFFICIENT TO FINANCE ONLY LIMITED AMOUNT OF NEEDED IMPORTS, AND PRODUCTION AVAILABLE FOR EXPORTS IS NOT LIKELY TO INCREASE DRAMATICALLY. INCREASED FOOD PRODUCTION OVER PAST 15 YEARS HAS BEEN CONTINUALLY OFFSET BY SUSTAINED POPULATION GROWTH, WHICH UK ESTIMATES TO BE ABOUT 2 PERCENT ANNUALLY. STRENUOUS BIRTH CONTROL CAMPAIGN HAS TAKEN HOLD ONLY IN CITIES; IN COUNTRYSIDE WHERE 85 PERCENT OF PEOPLE LIVE THE PROGRAM IS LARGELY INEFFECTIVE. THUS, AGRICULTURAL SECTOR, TOO, HAS REACHED CEILING. SURGE OF PRC IMPORTS IN 1973, RELATIVE TO EXPORTS, REPRESENTED A CATCHING UP ON NEEDS DATING BACK INTO THE 1960'S BUT POSTPONED AT THAT TIME; THIS SHARPLY INCREASED IMPORT LEVEL AND RESULTING DEFICIT (ESTIMATED BY UK AT \$2-300 MILLION AND FRG NEARER \$500 MILLION), WHICH PRC RESERVES OF ABOUT \$2 BILLION ARE ADEQUATE TO ABSORB FOR TIME BEING, THUS UNLIKELY TO BE SUSTAINED. AN AMBITIOUS LONG RANGE IMPORT PROGRAM WOULD ALSO BE INHIBITED BY BASIC PRC DETERMINATION TO RETAIN ECONOMIC SELF-SUFFICIENCY, BY AVERSION TO DEPENDENCY ON FOREIGNERS AND REFUSAL TO ALLOW

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DIRECT FOREIGN ROLE IN PRC ECONOMY, AND EVEN BY DOCTRINAIRE PRC OBJECTION TO ACCEPTING ORDINARY CREDIT FINANCING. (PRC PREFERS TO MAKE "DEFERRED PAYMENT" FOR IMPORTS IN CASH ON DELIVERY).

3. RIGIDLY NEGATIVE PRC ATTITUDE TOWARD FOREIGN INFLUENCE AND PARTICIPATION IS OBSTACLE TO MAJOR EXPANSION OF PRC PETROLEUM EXPORTS -- SEEN BY UK, FRENCH AND OTHER OBSERVERS AS PRC'S ONE GREAT

POTENTIAL AND UNEXPLOITED SOURCE OF FOREIGN CURRENCY EARNINGS. UK ESTIMATES THAT PRC OIL PRODUCTION HAS ALREADY REACHED ABOUT 50 MILLION TONS IN 1973 -- SUFFICIENT TO COVER ALL OF PRC'S OWN NEEDS WITH SMALL MARGIN FOR EXPORT. UK AND FRENCH EXPERTS BELIEVE PRODUCTION COULD BE EXPANDED TO 100 MILLION TONS IN ANOTHER 3-5 YEARS, WITH SUBSTANTIAL AMOUNTS AVAILABLE FOR EXPORT. HOWEVER, THIS WOULD NECESSITATE VAST CAPITAL OUTLAY FOR INTERNAL TRANSPORT IMPROVEMENTS, AS WELL AS EXPANDED PORT FACILITIES, TO GET SUCH QUANTITIES OF OIL TO INTERNATIONAL MARKET. NEEDED CAPITAL AND TECHNOLOGY COULD COME ONLY FROM OUTSIDE PRC. SIMILARLY, EXPLOITATION OF PRC'S POTENTIAL OFFSHORE OIL RESERVES WOULD REQUIRE HEAVY CAPITAL INVESTMENT AND TECHNOLOGY AVAILABLE ONLY ABROAD. PRC'S OIL RESOURCES COULD PROVIDE MEANS FOR COUNTRY TO BREAK OUT OF PRESENT ECONOMIC STALEMATE. BUT A WAY HAS YET TO BE FOUND WHEREBY THE NECESSARY FOREIGN ROLE IN THE PROCESS WOULD BE ACCEPTABLE TO PRC.

4. UK, FRENCH AND OTHER REPS BELIEVED THAT PRC REGIME IS EXERCISING PRUDENCE LEST CURRENT ANTI-CONFUCIUS CAMPAIGN INTERFERE WITH PERFORMANCE OF CHINESE ECONOMY; FOR EXAMPLE, ACCORDING UK REP, WORKERS' RALLIES BEING HELD ONLY AFTER WORKING HOURS. ECONOMIC PRIORITIES PROMOTED BY CHOU NOT BELIEVED TO BE SERIOUSLY AFFECTED BY HIS CURRENT ILLNESS, AS HIS PRINCIPAL LIEUTENANTS CONTINUE TO EXERT THEIR FULL INFLUENCE. IN EVENT HIS DEATH, MOST LIKELY EVENTUALITY IS THAT HE WOULD BE SUCCEEDED BY COLLECTIVE LEADERSHIP IN WHICH HIS KEY AIDES WOULD REMAIN PROMINENT; THUS HELPING ENSURE ECONOMIC STABILITY. NONETHELESS, OPPOSITION CURRENTLY EXPRESSED BY LEFT-WING MAOISTS, WHICH SERVES AS RELATIVE CHECK ON CHOU'S PRESENT ECONOMIC POLICIES, CONFIDENTIAL

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WOULD STILL BE OBSTACLE TO ANY SIGNIFICANT NEW DEPARTURES IN DIRECTION OF FOREIGN PARTICIPATION IN SUCH VENTURES AS DEVELOPMENT OF PRC OIL.

5. ACTION REQUESTED: COMMITTEE CHAIRMAN REQUESTED US DATA AND VIEWS ON FOLLOWING SPECIFIC POINTS WITH RESPECT TO PRC ECONOMIC SITUATION: (A) WHAT WAS ESTIMATED PRC INDEBTEDNESS ABROAD, AND IN WHAT TERMS, FOR 1973? (B) WHAT IS CURRENT US ESTIMATE OF PRC GOLD/FOREIGN EXCHANGE HOLDINGS (ESTIMATED BY FRANCE AT UP TO \$2.6 BILLION, BY UK AT \$2 BILLION AND FRG AT \$1.5 BILLION) AND AMOUNT OF EACH? HOW WAS US ESTIMATE REACHED? (C) WHAT IS US VIEW ARE PRC PETROLEUM PRODUCTION AND EXPORT PROSPECTS? GOODBYV

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